

## Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name EVART AREA JOINT FIRE DISTRICT	County OSCEOLA
Fiscal Year End JUNE 30, 2006	Opinion Date SEPTEMBER 7, 2006	Date Audit Report Submitted to State OCTOBER 31, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

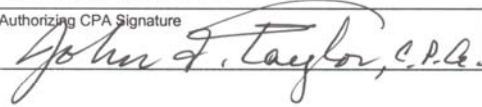
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	LETTER OF REPORTABLE CONDITIONS	
Certified Public Accountant (Firm Name) BAIRD, COTTER AND BISHOP, P.C.		Telephone Number 231-775-9789	
Street Address 134 WEST HARRIS ST.		City CADILLAC	State MI
Authorizing CPA Signature 		Printed Name JOHN F. TAYLOR, C.P.A.	Zip 49601
		License Number 1620632	

**EVART AREA JOINT FIRE DEPARTMENT**

**EVART, MICHIGAN**

**JUNE 30, 2006**

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditors' Report</b>	i-ii
<b>Management's Discussion and Analysis</b>	iii-viii
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Fund	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In	
Fund Balance to the Statement of Activities	6
Notes to Financial Statements	7-15
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	16
<b>Other Information</b>	
Letter of Comments and Recommendations	17
Letter of Reportable Conditions	18

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER., C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

September 7, 2006

### INDEPENDENT AUDITORS' REPORT

To the Fire Board  
Evert Area Joint Fire Department  
Evert, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Evert Area Joint Fire Department, Evert, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information for the Evert Area Joint Fire Department, Evert, Michigan, at June 30, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 16 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Evert Area Joint Fire Department's basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P. C.

*Baird, Cotter & Bishop, P.C.*

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

Evart Area Joint Fire Department is a joint venture volunteer fire department supported by the Townships of Evart, Orient, Osceola and Sylvan and the City of Evart. It has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Evart Area Joint Fire Department board's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

**Financial Highlights**

- ◆ The assets of the Fire Department exceeded its liabilities at the close of the fiscal year by \$476,848. Of this amount, \$70,042 may be used to meet the Fire Department's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$70,042 or 27.3% of total general fund expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Fire Department's basic financial statements. The Fire Department's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Evart Area Joint Fire Department. The *government-wide financial statements* are designed to provide readers with a broad overview of the Fire Department's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The Fire Department's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

Both of the government-wide financial statements distinguish functions of the Fire Department that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Fire Department include general governmental and public safety. The fire department supports no business-type activities.

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. The Fire Department only has one fund and it is a governmental fund.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire Department's financial position over time. The Net Assets of the Fire Department are \$476,848 at June 30, 2006, meaning the Fire Department's assets were greater than its liabilities by this amount.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

**Evart Area Joint Fire Department**  
**Net Assets as of June 30, 2006**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current Assets	\$ 71,200
Non Current Assets	
Capital Assets	\$ 922,974
Less: Accumulated Depreciation	<u>(386,614)</u>
Total Non Current Assets	<u>\$ 536,360</u>
<b>Total Assets</b>	<u><u>\$ 607,560</u></u>
<b>Liabilities</b>	
Current Liabilities	\$ 11,511
Non Current Liabilities	<u>119,201</u>
Total Liabilities	<u>\$ 130,712</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	\$ 406,806
Unrestricted	<u>70,042</u>
<b>Total Net Assets</b>	<u><u>\$ 476,848</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 607,560</u></u>

The most significant portions of the Fire Department's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire Department used to acquire or construct the asset.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire Department. The condensed information was derived from the government-wide Statement of Activities.



EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

**Evart Area Joint Fire Department  
Change in Net Assets  
for the Fiscal Year Ended June 30, 2006**

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
Charges for Services	\$ 7,750
Operating Grants and Contributions	103,000
General Revenues	
Interest Earnings	698
Other	4,284
	<hr/>
Total Revenues	\$ 115,732
	<hr/>
<b><u>Expenses</u></b>	
General Government	\$ 71,956
Public Safety	131,381
	<hr/>
Total Expenses	\$ 203,337
	<hr/>
Change in Net Assets	\$ (87,605)
	<hr/>
NET ASSETS - Beginning of Year	564,453
	<hr/>
NET ASSETS - End of Year	\$ 476,848
	<hr/> <hr/>

**Governmental Activities**

During the year ended June 30, 2006, the Fire Department's net assets decreased by \$87,605. This decrease represents the degree to which increases in ongoing expenses have outstripped similar increases in ongoing revenues. This is partially true due to the fact that GASB 34 now requires the Fire Department to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets. \$71,206 of the decrease was attributable to the loss on disposition of a fire truck.

The most significant part of the revenue for all governmental activities of Evart Area Joint Fire Department comes from the City of Evart and the Townships of Evart, Orient, Osceola and Sylvan. Each unit contributes an amount based on taxable value in each unit to support the Fire Department. Each township levies mills for fire protection. This revenue is shown as contributions from local units.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

The Fire Department's governmental activities expenses are dominated by public safety expenses that total 99.7% of total expenses. The Fire Department spent \$255,868 in fiscal year 2006 on public safety expenses. Expenses for insurance represent a large portion of the public safety expenses at \$18,422.

**Financial Analysis of the Government's Funds**

***Governmental Activities*** The focus of Evart Area Joint Fire Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire Department's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund** – At the end of the current fiscal year, Evart Area Joint Fire Department's General Fund reported an ending fund balance of \$70,042. Of this amount \$3,325 is designated. The remaining \$66,717 constitutes unreserved fund balance. The fund balance of the Fire Department's General Fund decreased by \$54,486 during the current fiscal year.

**General Fund Budgetary Highlights**

During the year, individual expenditure lines were amended to agree with actual expenditures.

**Capital Assets and Debt Administration**

**Capital Assets.** The Fire Department's investment in capital assets for governmental activities as of June 30, 2006 amounted to \$536,360 net of accumulated depreciation. The net increase in the Fire Department's investment in capital assets for the current fiscal year was 21.9%.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually, that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

*Evart Area Joint Fire Department*  
*Capital Assets as of June 30, 2006*

	<b>Governmental Activities</b>
Land	\$ 726
Buildings	218,615
Equipment	703,633
	<hr/>
	\$ 922,974
Less Accumulated Depreciation	386,614
	<hr/>
<b>Net Capital Assets</b>	<b>\$ 536,360</b>

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

Major capital asset events during the current fiscal year included the following:

- Purchased 2 trucks at a cost of \$149,554 each.

**Long-Term Debt.** As of June 30, 2006, the Fire Department had a capital lease payable of \$129,554 to Baystone Financial Group for the purchase of a fire truck.

**Economic Condition and Outlook**

The Fire Department is expected to be supported by the Townships and City in the future.

The mills to be levied for the 2006 tax roll for fire protection are expected to be similar to 2005.

These factors were considered in preparing the Fire Department's budgets for the 2006-07 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire Department's finances and to demonstrate the Fire Department's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Evart Area Joint Fire Department at 109 E. Sixth Street, Evart, Michigan 49631.

EVART AREA JOINT FIRE DEPARTMENT

EVART, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 71,040
Accounts Receivable	160
	<hr/>
Total Current Assets	\$ 71,200
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	\$ 726
Buildings	218,615
Equipment	703,633
	<hr/>
	\$ 922,974
Less Accumulated Depreciation	(386,614)
	<hr/>
Total Capital Assets	\$ 536,360
	<hr/>
TOTAL ASSETS	\$ 607,560
	<hr/> <hr/>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 1,158
Current Portion of Non Current Liabilities	10,353
	<hr/>
Total Current Liabilities	\$ 11,511
	<hr/>
<u>NONCURRENT LIABILITES</u>	
Capital Lease Payable	\$ 129,554
Less Current Portion of Non Current Liabilities	(10,353)
	<hr/>
Total Non Current Liabilites	\$ 119,201
	<hr/>
Total Liabilites	\$ 130,712
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 406,806
Unrestricted	70,042
	<hr/>
TOTAL NET ASSETS	\$ 476,848
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 607,560
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

						NET (EXPENSES)
						REVENUES AND
						CHANGE IN
						NET ASSETS
PROGRAM REVENUES						
OPERATING						CAPITAL
CHARGES FOR						GRANTS AND
SERVICES						GRANTS AND
CONTRIBUTIONS						CONTRIBUTIONS
FUNCTIONS/PROGRAMS	EXPENSES					TOTALS
<u>PRIMARY GOVERNMENT</u>						
<u>GOVERNMENTAL ACTIVITIES</u>						
General Government	\$ 71,956	\$ 0	\$ 0	\$ 0	\$	(71,956)
Public Safety	131,381	7,750	103,000	0		(20,631)
Total Governmental Activities	<u>\$ 203,337</u>	<u>\$ 7,750</u>	<u>\$ 103,000</u>	<u>\$ 0</u>	<u>\$</u>	<u>(92,587)</u>
<u>GENERAL REVENUES</u>						
Interest Earnings					\$	698
Other						<u>4,284</u>
Total General Revenues					<u>\$</u>	<u>4,982</u>
Change in Net Assets					\$	(87,605)
<u>NET ASSETS</u> - Beginning of Year						<u>564,453</u>
<u>NET ASSETS</u> - End of Year						<u>\$ 476,848</u>

The accompanying notes are an integral part of the financial statements.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

GOVERNMENTAL FUND

BALANCE SHEET  
JUNE 30, 2006

	<u>GENERAL FUND</u>
 <u>ASSETS</u>	
Cash	\$ 71,040
Accounts Receivable	<u>160</u>
 TOTAL ASSETS	 <u><u>\$ 71,200</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	<u>\$ 1,158</u>
 <u>FUND BALANCE</u>	
Unreserved	
Designated	\$ 3,325
Undesignated	<u>66,717</u>
 Total Fund Balance	 <u>\$ 70,042</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 71,200</u></u>

The accompanying notes are an integral part of the financial statements.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Total Fund Balance for Governmental Funds	\$	70,042
---	----	--------

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$	726	
Buildings		218,615	
Equipment		703,633	
Accumulated Depreciation		<u>(386,614)</u>	536,360

Long term liabilities are not due and payable in the current period and  
are not reported in the fund.

Capital Lease		<u>(129,554)</u>
---------------	--	------------------

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>476,848</u></u>
---------------------------------------	----	-----------------------

The accompanying notes are an integral part of the financial statements.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Contributions from Local Units	\$ 103,000
Charges for Services	6,900
Interest and Rents	1,548
Sale of Assets	86,400
Other Revenues	<u>4,284</u>
Total Revenues	<u>\$ 202,132</u>
<u>EXPENDITURES</u>	
General Government	\$ 750
Public Safety	<u>255,868</u>
Total Expenditures	<u>\$ 256,618</u>
Net Change in Fund Balance	\$ (54,486)
<u>FUND BALANCE</u> - Beginning of Year	<u>124,528</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 70,042</u></u>

The accompanying notes are an integral part of the financial statements.



EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2006

Net change in Fund Balances Total Governmental Funds	\$ (54,486)
--	-------------

Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(45,068)
Capital Outlay	299,108

In the statement of activities, only the gain or loss on the sale of fixed assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balances by the cost of the capital assets sold net of accumulated depreciation.

Sale of Capital Assets	(157,605)
------------------------	-----------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Capital Lease Proceeds	<u>(129,554)</u>
------------------------	------------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (87,605)</u></u>
---	---------------------------

The accompanying notes are an integral part of the financial statements.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Evart Area Joint Fire Department is a joint venture created in 1951 by the Townships of Evart, Orient, Osceola, and Sylvan and the City of Evart. The Department was organized to better serve the citizens of all municipalities as authorized by 1951 PA 33, as amended. The Department is under the control of a Board consisting of 1 member from each municipality. The board members are appointed by the Municipalities' boards. The boards duties are to oversee operations, maintain assets, develop budgets for participating units' approval and generally exercise on the Departments' behalf the powers granted by 1951 PA 33, as amended. Funding is provided by a millage levied on the member units. The Fire Department's boundaries include all of the municipalities.

**B. Government-wide and Fund Financial Statements**

During fiscal year 2005, the Fire Department adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. There are no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Contributions from local units and other items not properly included among program revenues are reported instead as general revenues.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

The government-wide focus is more on the sustainability of the Fire Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire Department are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Evart Area Joint Fire Department reports the following major governmental funds:

The *General Fund* is the government's only fund. It accounts for all financial resources of the department.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Fire Department's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. The Township investment policy authorizes the Township treasurer to invest Township funds in deposit accounts, savings accounts, certificates of deposit, bonds, securities and other obligations of the United States; commercial paper; repurchase agreements; obligations of the state or its political subdivisions; mutual funds; and investment pools as allowed by state law.

***2. Receivables and Payables***

All receivables are shown net of an allowance for uncollectibles, if any. Fire Department revenues are recognized when they become both measurable and available for use to finance Fire Department operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

For the 2005 – 2006 fiscal year, the Evart Area Joint Fire Department received as aid \$34,453 from the City of Evart, \$23,618 from Evart Township, \$16,449 from Orient Township, \$13,689 from Osceola Township and \$14,791 from Sylvan Township.

***3 Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

***4 Capital Assets***

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	25
Land improvements	20
Vehicles	20
Equipment	10-20

**5. *Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**6. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

The annual budget is adopted on the modified accrual basis based on the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on January 18, 2005, or as amended by the Fire Department Board from time to time throughout the year.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

The appropriated budget is prepared by activity. The Fire Department Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire Department because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2006, expenditures exceeded appropriations in the General Fund by \$127,903. This over expenditure was funded by proceeds from sale of capital assets and fund balance.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Department's deposits are all on deposit with Chemical Bank and Citizens Bank.

*Investment rate risk.* The Department minimizes Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Department's cash requirement.

*Foreign currency risk.* The Department is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Department minimizes Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Department's investment policy; and pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the Department does business in accordance with the Department's investment policy.

*Concentration of credit risk.* The Department minimizes Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Department's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006 none of the government's bank balance of \$71,040 was exposed to custodial credit risk.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department's investments are categorized to give an indication of the level of risk assumed by the Department at year end. Category 1 includes investments that are insured or registered, or securities held by the Department or the Department's agent in the Department's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Department's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Department's name. At year end, the Department held no investments.

**B. Receivables**

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded at the end of the current fiscal year.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 726	\$ 0	\$ 0	\$ 726
Capital assets, being depreciated				
Buildings	\$218,615	\$ 0	\$ 0	\$ 218,615
Equipment	655,419	299,108	(250,894)	703,633
Total capital assets, being depreciated	\$874,034	\$299,108	\$(250,894)	\$ 922,248
Less accumulated depreciation for:				
Buildings	\$ 82,636	\$ 3,935	\$ 0	\$ 86,571
Equipment	352,198	41,133	(93,288)	300,043
Total accumulated depreciation	\$434,834	\$ 45,068	\$ (93,288)	\$ 386,614
Total capital assets being depreciated, net	\$439,200	\$254,040	\$(157,606)	\$ 535,634
Governmental activities capital assets, net	\$439,926	\$254,040	\$(157,606)	\$ 536,360

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

    Public Safety \$ 45,068

A loss on the sale of a fire truck in the amount of \$71,206 was charged to General Government.

Construction Commitments:

The fire department has no outstanding construction commitments as of June 30, 2006.



EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**D. Long-Term Debt**

During the year, the Fire Department entered into capital lease for the purchase of a new fire truck. The balance at June 30, 2006 was \$129,554 with an interest rate of 4.89%. Annual payments of \$16,688 will be made for 10 years.

A summary of the Long-Term Debt transactions for the Fire Department for the year ended June 30, 2006 is as follows:

Long-Term Debt at July 1, 2005	\$ 0
Debt Issued	129,554
Liabilities Classified as Current	<u>(10,353)</u>
Long-Term Debt at March 31, 2006	<u><u>\$ 119,201</u></u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2006 including interest payments are as follows:

<u>YEAR ENDING</u> <u>JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 10,353	\$ 6,335	\$ 16,688
2008	10,859	5,829	16,688
2009	11,390	5,298	16,688
2010	11,947	4,741	16,688
2011	12,532	4,157	16,689
2012-2015	<u>72,473</u>	<u>10,969</u>	<u>83,442</u>
	<u><u>\$ 129,554</u></u>	<u><u>\$ 37,329</u></u>	<u><u>\$ 166,883</u></u>

Net book value of the fire truck subject to this capital lease is \$144,569 and the cost was \$149,554.

**E. Fund Balance Reserves and Designations**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Department has certain portions of unreserved fund balances/retained earnings designated for intended future uses. These designations are detailed in the following schedule:

<u>FUND BALANCE</u>	
Designated	\$ 3,325
Unreserved	<u>66,717</u>
Total Fund Balance	<u><u>\$ 70,042</u></u>

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**IV. OTHER INFORMATION**

**A. Property Taxes**

Each Governmental Unit which is a member of the Fire Department levies property tax millage to support the Fire Department. The property tax collections and taxes receivable are recognized by the individual units and remitted to the Fire Department periodically. The Fire Department recognizes the funds received from the units as aid from other governmental units.

**B. Risk Management**

The Fire Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Fire Department participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions, and worker's compensation insurance. The Fire Department pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Fire Department has not been informed of any special assessments being required for the current year or the three prior years.

The Fire Department continues to carry insurance for other risks of loss, including fidelity bonds.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED JUNE 30, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Contributions from Local Units	\$ 103,000	\$ 103,000	\$ 103,000
Charges for Services	7,000	7,000	6,900
Interest and Rents	950	950	1,548
Sale of Assets	0	0	86,400
Other Revenues	0	0	4,284
Total Revenues	\$ 110,950	\$ 110,950	\$ 202,132
<u>EXPENDITURES</u>			
General Government	\$ 0	\$ 0	\$ 750
Public Safety	124,950	128,715	255,868
Total Expenditures	\$ 124,950	\$ 128,715	\$ 256,618
Net Change in Fund Balance	\$ (14,000)	\$ (17,765)	\$ (54,486)
<u>FUND BALANCE</u> - Beginning of Year	124,528	124,528	124,528
<u>FUND BALANCE</u> - End of Year	\$ 110,528	\$ 106,763	\$ 70,042

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

September 7, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Fire Board  
Ewart Area Joint Fire Department  
Ewart, Michigan

As a result of our audit of the basic financial statements of Ewart Area Joint Fire Department for the year ended June 30, 2006, we would like to take this opportunity to comment on the following items relative to the management and accounting records and procedures of the Department:

GASB 34

These financial statements are reported under the new GASB 34 accounting standard and are much different than in the past.

Some of the more significant changes required by GASB 34 are as follows:

1. Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
2. Several new types of financial statements are now included that reports financial information on a Fire District-wide basis and incorporates capital assets, a provision for depreciation on those assets as well as long-term liabilities of the Fire District.

We recommend the Fire Department carefully review these statements under the new accounting standard. We are available to explain the various changes in detail if so desired.

We would like to thank the board for its continued confidence in our firm and to thank the Fire Department officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

September 7, 2006

LETTER OF REPORTABLE CONDITIONS

To the Fire Board  
Ewart Area Joint Fire Department  
Ewart, Michigan

In planning and performing our audit of the basic financial statements of Ewart Area Joint Fire Department, Ewart, Michigan for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Fire Department makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

*Baird, Cotter & Bishop, P.C.*